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# Unlike and the like

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and the tax payer of large means seeking investment would be in the position of choosing between industrials and municipals in accordance with the advantages of the respective bonds with regard to security of principal and interest return. Municipals would then be obliged to compete with industrials. The tendency of local taxpayers would probably be to object to issues which would pay high rates of interest and local extravagances would tend to curtailment. The chances are that the industrials would be in a better position to offer higher interest rates, and would thereby attract available capital. Amendment to the Constitution would perhaps accomplish the same thing which Mr. Mellon hopes to accomplish by reducing surtaxes, namely, the attraction of available capital to the essential industries.

But why amend the Constitution again? The sixteenth amendment to the Constitution of the United States provides as follows:

"The Congress shall have power to lay and collect taxes on incomes from whatever source derived, without apportionment among the several states and without regard to any census or enumeration."

Could anything be clearer? Could any authority to tax income from municipal, county, and state securities be made more specific if ten amendments covering the subject were added to the Constitution?

The good of the country is an intangible thing, difficult to define. Whatever it is, it represents the people as a whole. The people as a whole are represented by the national government. The national government is supported largely by federal taxation. Relief to accrue to the people as a whole would appear then to be found in a reduction of federal taxes. The way has been pointed. It appears to be clear. There is every indication that the people of the country generally are in favor of traveling this road.

The effect of reducing surtaxes will be apparent and felt immediately. Whether or not capital now diverted into tax-exempt securities will be attracted back into industry is a question which only the future can determine. Any further amendment to the Constitution to prevent the issue of tax-exempt securities would be a long-drawn out affair. Its effect also is problematical. About the effect of federal tax reduction there is no question. Why then, in this country where the government is of the people, by the people, and for the people, may we not have federal legislation which admittedly is for the good of the country?

## The Unlike and the Like

NATURE cast all men in the same general mould. To some she gave black hair and olive skin; to others, red hair and freckles. But irrespective of personal peculiarities they must all breathe, eat, and sleep.

Man's needs of food, shelter, and recreation are fundamental to individuals as a class. These needs are not concerned with the color of his hair or the appearance of his skin. Regardless of his personal characteristics, considerations of food and shelter are matters of common interest and necessity.

Society today is a complex organism. The requirements of primitive man have been supplemented in modern times many fold. There is today a wide range and complexity of human wants, but these wants are no less common to individuals and classes.

Modern civilization has developed complex means of, and organizations for, supplying human wants. The organizations vary in type. They have problems peculiar to the means which they employ. The end is invariably the same.

Economics, sometimes briefly defined as the science of business, recognizes four factors in the production of income: land, labor, capital, and enterprise, or as the last is more commonly known, business organization. The income produced is classified as rent, wages, interest, and profits. Again both as to production factors and income there is the connotation of likeness.

Present-day demands for large-scale production and widespread service have given rise to a flexible type of business organization known as the corporation. The corporate form has become popular because it facilitates aggregation of huge capital sums out of small units. It has other advantages which the small-scale producer has not been slow to recognize. In certain fundamental aspects it is no different from the copartnership form which developed so extensively in the sixteenth century.

All forms of business organization have certain characteristics in common. All seek the same end—profits. All employ the same economic material—capital in the form of assets. All have common relationships—liability to those who lend capital; accountability to those who risk their capital in the venture. Each organization must share its proceeds of sales with those who render service to the organization through land made available, or labor contributed, or capital loaned. The remainder is the reward of those who venture their capital in the enterprise.

Profit is the measure of management. Obviously fifty thousand shareholders, if each had a hand in the management, would seriously interfere with the conduct of any business. The management must be entrusted to paid representatives. But fifty thousand parties at interest may be presumed to have fifty thousand pairs of eyes trained on the management and looking for results.

Then there are also those who lend capital to the enterprise—bondholders, bankers, trade creditors; prospective investors, the government, and statisticians who keep track of everybody and everything. So we have published reports: balance sheets, income statements, etc.

But all the parties at interest have a common wail. The language and form of expression of published statements are so varied that no one but public accountants understands them. And the accountants are often hard-pressed to explain some published statements, for the preparation of which they were not responsible, or of which they have no knowledge further than what appears on the face of the statements.

The question is, "Why is this necessary?" It isn't. Correction might be effected in the main with comparative ease were some leadership to be found which would clarify the confusion, enunciate a few simple truths and point the common way. With the present tendency to organize leagues of all kinds, perhaps a League for the Standardization of Financial Statements might appear to offer a solution. Doubtless some professional organizer might find in the suggestion a job for himself, his relatives and friends. But such an organization would be far too pretentious for so simple a job. With a clear understanding of a few elementary principles on the part of those who are responsible for the preparation of financial statements, a will on the part of responsible policy-making business officials to co-operate in following a general outline of published statements, much might be accomplished with little or no machinery of organization.

Definitions of such terms as need to be employed are scarcely necessary. Almost everyone who sees financial statements understands sufficiently well for average purposes the general meaning of such terms as assets, liabilities, and capital. Some enlightenment may be necessary as to reserves. The significance of the groupings on the income statement may need elucidation. Much progress, however, has been made in the past five years in the general understanding of accounting nomenclature. Many terms have reached a stage of common acceptance.

Assets classify roughly, but with sufficient sharpness for statement purposes, into five groups: current, fixed, intangibles, special funds, and deferred charges. The last named, although strictly speaking not an asset, may, for the purpose of this classification, be so regarded. Liabilities divide generally into two classes: current and fixed; deferred credits, if any, to follow. Shareholders' capital is made up of that which has been contributed or invested, reserves, and surplus. But no reserves may be included in shareholders' capital that are not true reserves, meaning thereby a part of the shareholders' capital restricted as to use and not bookkeeping accounts which are used for valuation or offset purposes.

Income divides into cost and profit. In other words, income distributes in accordance with the factors which contribute to its production. For every dollar of income from sales, so many cents go to the material supply men, so many to the laborers who fashion the goods, and so on—to company employes who sell the goods or render other services, and to those who lend capital to the enterprise. The remainder is profit. So we have cost of goods sold, selling expense, administrative and general expense, and financial expense. Setting off the profit at various stages along the line of distribution shows the efficiency of management in greater detail than the mere comparison of total cost with total income.

The general outlines of statements which might be followed, apparently, by one and all with much advantage resulting are as follows:

Balance Sheet
Assets
  Current
  Fixed
  Intangible
  Special funds
  Deferred charges
    Total

Liabilities
  Current
  Fixed
  Deferred credits
Capital
  Invested
  Reserves
  Surplus
    Total

Income Statement
Net Sales
Cost of sales
  Gross profit
Selling expense
  Selling profit
Administrative and general expense
  Operating profit
Financial expense and income charges
  Net profit
Dividends
  Remainder to surplus

It is not intended in the foregoing to provide for the refinements of classification but rather to indicate broad, general lines and general groupings. If everyone would follow these general lines a common basis of consideration would be afforded. There would be far less wailing and gnashing of teeth. With such information the shareholder would be enabled to see the book value of his holdings; the bondholder, the strength of his position; the merchandise creditor, his probability of payment; bank credit men and commercial credit men, the status and tendencies; statisticians, the relationships, all on the same basis. Of course, the administration would need more information for intensive management, and the directors more detail for policy-making. But this discussion has to do with published statements. Much general data, now impossible of determination because of the diversity of form and content in statements, might be compiled if all were to follow the same lines.

## Elimination of Waste

SECRETARY HOOVER has, in addition to his many other activities, conceived and developed what is known as a program of simplified practice. The object is elimination of waste in industry and business.

Waste, while usually having a physical significance, means something beyond ma-